

# **Overview of Minneapolis Closed Pension Funds**

**November 17, 2003**

**Prepared by the City Finance Department**

# Agenda

- Background
- Financial challenge
- Roles and responsibilities
- Pension benefits
- Funding of pension obligations
- Mayor's proposed plan for 2004
- Opportunity for comment by pension boards

# Background

- Minneapolis has four local public pension plans for which it provides financial support
  - Minneapolis Employees Retirement Fund (MERF)
  - Minneapolis Police Relief Association (MPRA)
  - Minneapolis Fire Fighters Relief Association (MFRA)
  - Minneapolis Teachers Retirement Fund Association (MTRFA)

# **Background**

## *continued*

- Of the four, the City contributions are mandated by MN statute and vary up or down based on financial or demographic circumstances for three plans, which are MFRA, MPRA, and MERF
- City contributions to MTRFA are “voluntary” and trigger a matching state contribution under MN statute

# **Background**

## *continued*

- City has always met (fully funded) all required contributions to these funds as required by statute
- City has never “borrowed” against any pension funds or re-directed any pension related revenue (not allowable)

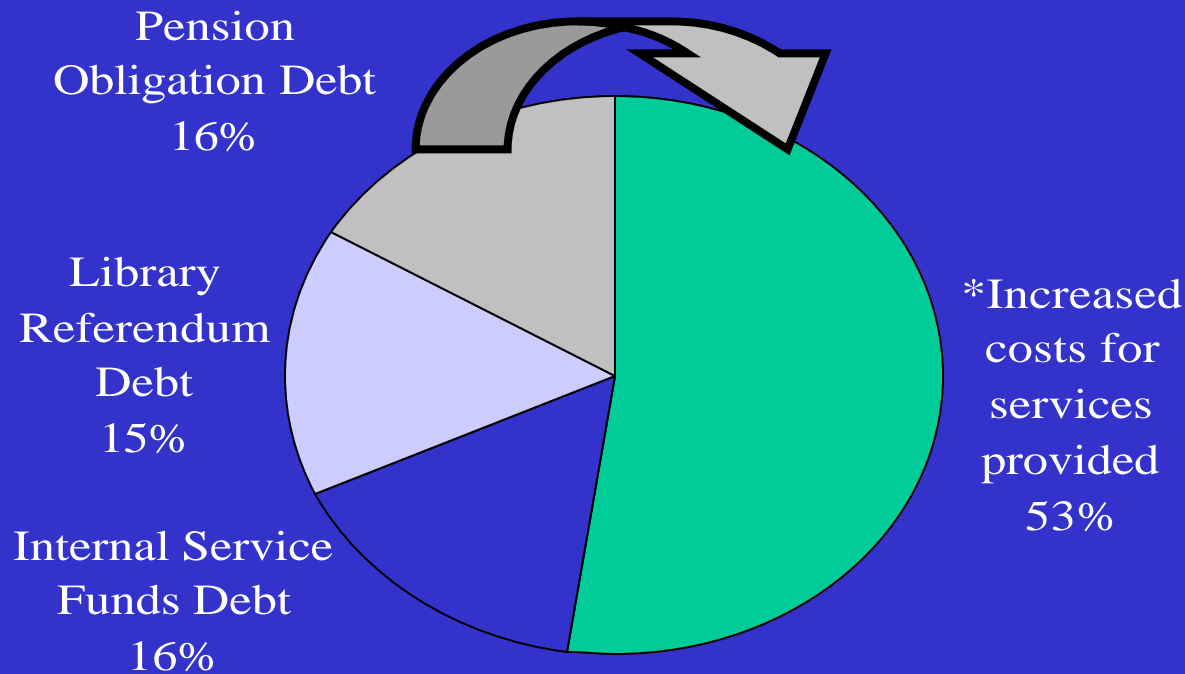
# Financial Challenge

## *continued*

- Pension funds are in a negative financial position (unfunded liability)
  - Negative stock market performance in recent years
  - Employees are retiring earlier, at a younger age, and living longer than prior actuarial assumptions for these demographic factors (*as assumptions are changed by the State this may cause the unfunded liability amounts to increase, as shown in this presentation, for the funds*)

# Financial Challenge

**Break-down of what an 8-percent annual property tax revenue increase over the next 5-years was projected to support**



\* This revenue increase is not sufficient to cover the cost of providing current services (at historical growth rates) and therefore reductions in spending (service) will be necessary.

# **Roles and Responsibilities**

- City, Pension Boards, and State
  - Roles and responsibilities are different and separate for the three entities
  - State sets the rules (laws that govern the pension boards)
  - City has significant financial exposure but minimal or no control over investment and benefit decisions
  - Pension Boards do not have the financial exposure, but they have the authority to make investment and benefit decisions (majority of board members are beneficiaries)



# Roles and Responsibilities

## City of Minneapolis' Closed Pension Systems

<u>Responsibility</u>	<u>City</u>	<u>State</u>	<u>Pension Boards (Beneficiaries)</u>
♦ Set overall benefit and investment policies; funding responsibilities		X	
♦ Administer benefits			X
♦ Set annual adjustments to benefits, including supplemental benefits based on performance			X
♦ Investment policy and management			X
♦ Assure funding of liabilities	Contribute annual amounts to eliminate unfunded liabilities; unlimited property tax authorized to meet annual contribution amounts	Contribute fixed annual amounts	

# **Roles and Responsibilities**

## *continued*

- City has tried to influence the Pension Boards' investment policy and management decisions, for example:

City Council Resolution 2000R-061 (February 18, 2000) reads, *“If the Minneapolis Police Relief Association fails to maintain pension fund management practices consistent with professional fiduciary responsibilities, the City will seek legislation that would transfer responsibilities for investing pension assets from the local association to the State Board of Investment.”*

# Pension Benefits

Plans provide retirement, disability and survivor benefits to its members. Plan members are not covered by social security.

- Average annual benefit for retirees
  - MERF \$28,161 per year as of 6/30/02, 3,780\*
  - MFRA \$37,329 per year as of 12/31/02, 436 retirees
  - MPRA 38,687 per year as of 12/31/02, 674 retirees

\* This average and total includes all retirees covered by the fund, which includes some retirees for which the City of Minneapolis does not have financial obligation.

# **Funding of Pension Obligations**

## **City Contributions**

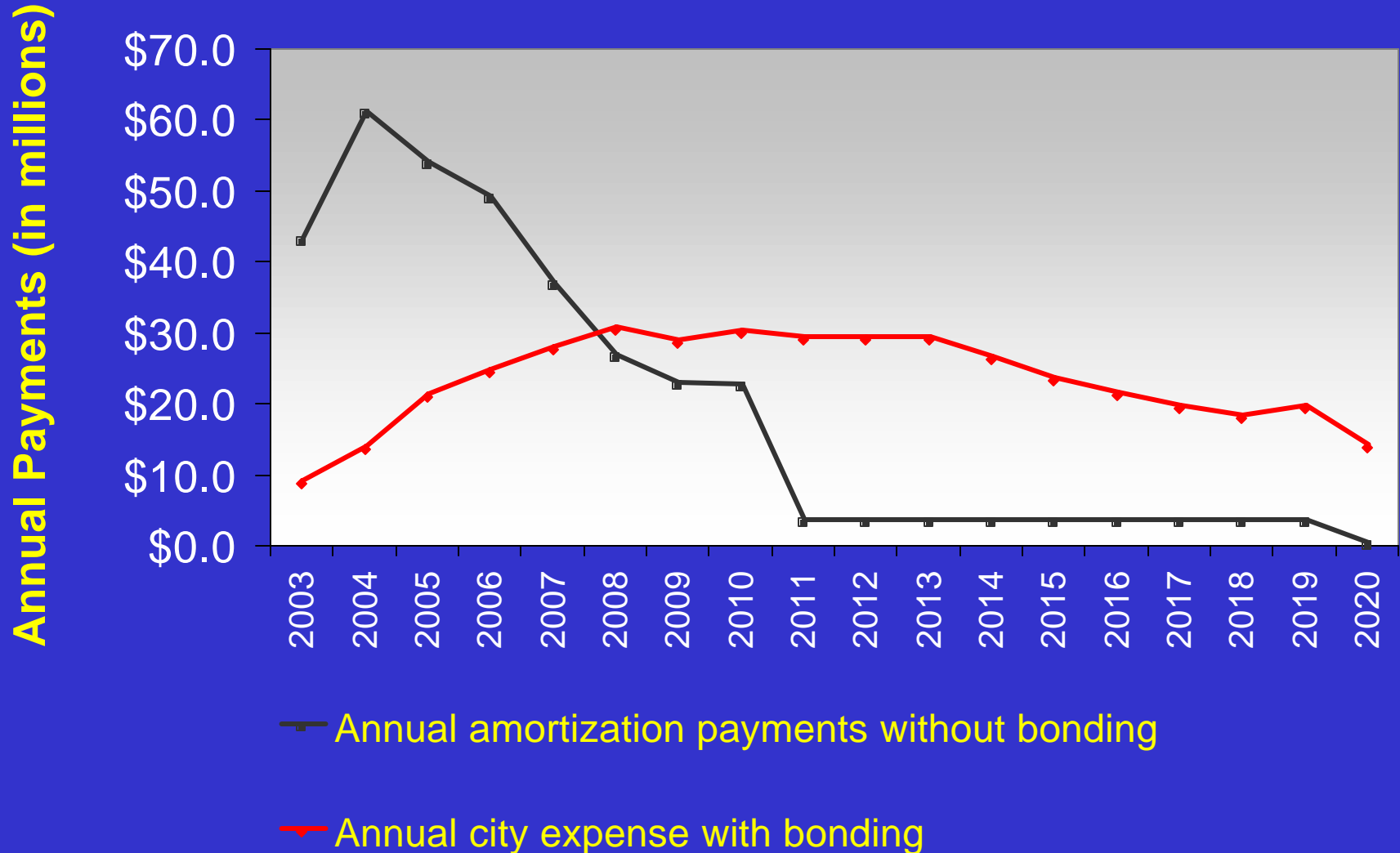
- Annual contributions to pension funds (for unfunded liability payments) will be funded from a combination of current property tax revenue, other current city revenue, and bond proceeds
- City has and will continue to issue bonds to meet pension obligations in order to avoid extraordinary large increases in property taxes (or extraordinary reductions in city services)

# **Funding of Pension Obligations**

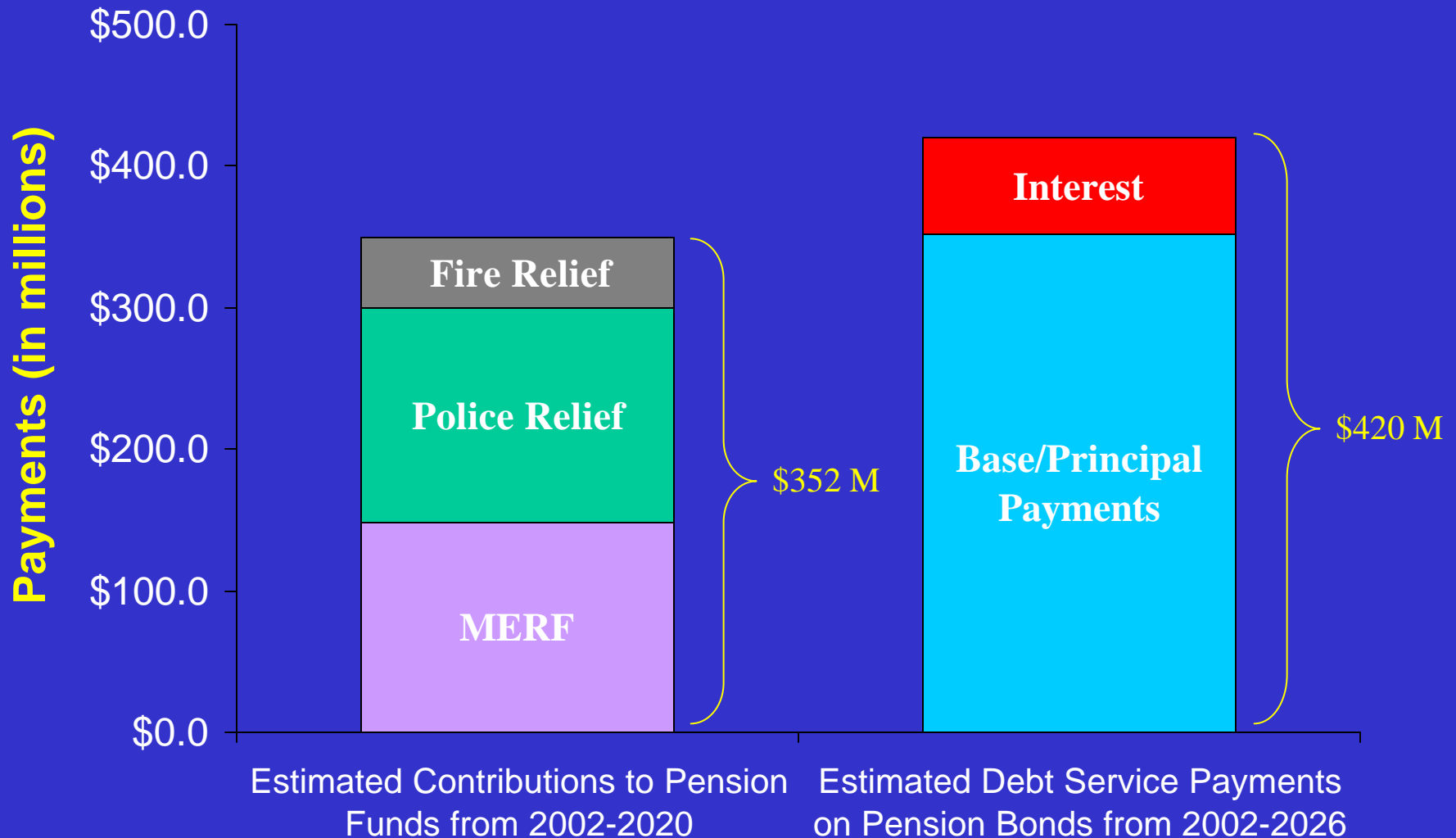
## **City Contributions**

- City is currently estimating to contribute \$352 million towards pension obligations between 2002 and 2020
  - MERF 42.3% of total, or \$148 million
  - Police Relief 43.4% of total, or \$152 million
  - Fire Relief 14.3% of total, or \$50 million
- 92% of this will need to be paid out between now and 2010

# Funding of Pension Obligations



# Funding of Pension Obligations



# **Mayor's 2004 Budget Recommendation**

- \$60.8 million in pension contributions for three closed pension funds in 2004
  - \$40.0 million for MERF
  - \$20.8 million for Police Relief
  - \$0 million for Fire Relief



# **Mayor's 2004 Budget Recommendation**

- Funding source for \$60.8 million in pension contributions will come from current property tax revenue, Hilton Fund, and bond proceeds
  - \$7.0 million of property tax revenue
  - \$12.5 million from Hilton Fund (one-time cash)
  - \$41.3 million from bond proceeds

# **Mayor's 2004 Budget Recommendation**

- Debt service payments on pension bonds in 2004 is estimated at \$8.2 million (assumes \$12.5 million of variable rate bonds will be taken out in January with cash from the Hilton Fund)
- Funding source for \$8.2 million in debt service payments:
  - \$6.5 million property tax revenue
  - \$1.7 million from non-tax City revenue

# **Opportunity for comment by pension boards**